

GARTNER INC
Form 10-Q
August 03, 2012

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended **June 30, 2012**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission File Number **1-14443**

GARTNER, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

P.O. Box 10212
56 Top Gallant Road
Stamford, CT
(Address of principal executive offices)

04-3099750
(I.R.S. Employer
Identification Number)

06902-7700
(Zip Code)

Registrant's telephone number, including area code: (203) 316-1111

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Edgar Filing: GARTNER INC - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 31, 2012, 93,424,025 shares of the registrant's common shares were outstanding.

Table of Contents

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1. FINANCIAL STATEMENTS (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets at June 30, 2012 and December 31, 2011</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2012 and 2011</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2012 and 2011</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2012 and 2011</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	19
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	29
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	30
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	31
<u>ITEM 1A. RISK FACTORS</u>	31
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	31
<u>ITEM 6. EXHIBITS</u>	32

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GARTNER, INC.
Condensed Consolidated Balance Sheets
(Unaudited; in thousands)

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 150,531	\$ 142,739
Fees receivable, net	389,414	421,033
Deferred commissions	68,310	78,492
Prepaid expenses and other current assets	78,095	63,521
	<u>686,350</u>	<u>705,785</u>
Property, equipment and leasehold improvements, net	77,795	68,132
Goodwill	515,002	508,550
Intangible assets, net	14,052	7,060
Other assets	86,916	90,345
	<u>1,380,115</u>	<u>1,379,872</u>
Total Assets	\$ 1,380,115	\$ 1,379,872
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 178,528	\$ 259,490
Deferred revenues	659,741	611,647
Current portion of long-term debt	70,088	50,000
	<u>908,357</u>	<u>921,137</u>
Total current liabilities	908,357	921,137
Long-term debt	130,000	150,000
Other liabilities	126,767	126,951
	<u>1,165,124</u>	<u>1,198,088</u>
Total Liabilities	1,165,124	1,198,088
Stockholders Equity		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued or outstanding		
Common stock, \$.0005 par value, 250,000,000 shares authorized; 156,234,415 shares issued for both periods	78	78
Additional paid-in capital	661,050	646,815
Accumulated other comprehensive income, net	3,623	5,793
Accumulated earnings	818,284	742,579
Treasury stock, at cost, 62,815,971 and 62,891,251 common shares, respectively	(1,268,044)	(1,213,481)
	<u>214,991</u>	<u>181,784</u>
Total Stockholders Equity	214,991	181,784
Total Liabilities and Stockholders Equity	\$ 1,380,115	\$ 1,379,872

See the accompanying notes to the condensed consolidated financial statements.

Edgar Filing: GARTNER INC - Form 10-Q

GARTNER, INC.

Condensed Consolidated Statements of Operations
(Unaudited; in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Research	\$ 278,302	\$ 250,015	\$ 552,922	\$ 493,450
Consulting	76,676	77,962	151,239	148,592
Events	42,504	37,566	62,492	53,068
Total revenues	397,482	365,543	766,653	695,110
Costs and expenses:				
Cost of services and product development	161,247	152,461	307,710	285,777
Selling, general and administrative	165,221	152,758	327,739	294,430
Depreciation	6,182	6,234	12,077	12,505
Amortization of intangibles	928	2,522	1,667	5,049
Acquisition and integration charges	1,182		1,182	
Total costs and expenses	334,760	313,975	650,375	597,761
Operating income	62,722	51,568	116,278	97,349
Interest expense, net	(2,153)	(2,797)	(4,348)	(5,581)
Other expense, net	(76)	(571)	(1,054)	(953)
Income before income taxes	60,493	48,200	110,876	90,815
Provision for income taxes	19,009	15,977	35,171	29,401
Net income	\$ 41,484	\$ 32,223	\$ 75,705	\$ 61,414
Income per common share:				
Basic	\$ 0.44	\$ 0.33	\$ 0.81	\$ 0.64
Diluted	\$ 0.43	\$ 0.32	\$ 0.79	\$ 0.62
Weighted average shares outstanding:				
Basic	93,350	96,886	93,383	96,664
Diluted	95,423	99,340	95,826	99,642

See the accompanying notes to the condensed consolidated financial statements.

Edgar Filing: GARTNER INC - Form 10-Q

GARTNER, INC.
 Condensed Consolidated Statements of Comprehensive Income
 (Unaudited; in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$ 41,484	\$ 32,223	\$ 75,705	\$ 61,414
Other comprehensive loss:				
Foreign currency translation adjustments	(4,339)	672	(1,663)	1,524
Unrealized loss on interest rate swap hedge	(722)	(4,272)	(669)	(2,887)
Amortization of pension unrealized actuarial gain	(52)	(34)	(106)	(67)
	(5,113)	(3,634)	(2,438)	(1,430)
Tax effect of comprehensive income items	289	1,709	268	1,155
Other comprehensive loss, net of tax effect	(4,824)	(1,925)	(2,170)	(275)
Comprehensive income	\$ 36,660	\$ 30,298	\$ 73,535	\$ 61,139

See the accompanying notes to the condensed consolidated financial statements.

GARTNER, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited; in thousands)

	Six Months Ended June 30,	
	2012	2011
Operating activities:		
Net income	\$ 75,705	\$ 61,414
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	13,744	17,554
Stock-based compensation expense	18,802	16,993
Excess tax benefits from stock-based compensation	(16,728)	(21,940)
Deferred taxes	(3,401)	(1,395)
Amortization of debt issue costs	1,008	1,182
Changes in assets and liabilities, net of acquisition:		
Fees receivable, net	30,660	11,915
Deferred commissions	9,726	7,561
Prepaid expenses and other current assets	(7,437)	(2,098)
Other assets	(1,845)	(792)
Deferred revenues	46,727	35,478
Accounts payable, accrued, and other liabilities	(67,509)	(61,959)
	99,452	63,913
Investing activities:		
Additions to property, equipment and leasehold improvements	(20,642)	(9,460)
Acquisition (net of cash acquired)	(9,509)	
	(30,151)	(9,460)
Financing activities:		
Proceeds from stock issued under stock plans	8,751	16,347
Proceeds from debt issuance	15,088	10,000
Payments on debt	(15,000)	(10,156)
Purchases of treasury stock	(84,675)	(87,859)
Excess tax benefits from stock-based compensation	16,728	21,940
	(59,108)	(49,728)
Net increase in cash and cash equivalents	10,193	4,725
Effects of exchange rates on cash and cash equivalents	(2,401)	435
Cash and cash equivalents, beginning of period	142,739	120,181
Cash and cash equivalents, end of period	\$ 150,531	\$ 125,341

See the accompanying notes to the condensed consolidated financial statements.

Edgar Filing: GARTNER INC - Form 10-Q

GARTNER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 Business and Basis of Presentation

Business. Gartner, Inc. is a global information technology research and advisory company founded in 1979 with its headquarters in Stamford, Connecticut. Gartner delivers its products and services through three business segments: Research, Consulting, and Events. When used in these notes, the terms Gartner, Company, we, us, or our refer to Gartner, Inc. and its consolidated subsidiaries.

Basis of presentation. These interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP), as defined in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 270 for interim financial information and with the applicable instructions of the U.S. Securities and Exchange Commission (SEC) Rule 10-01 of Regulation S-X on Form 10-Q and should be read in conjunction with the consolidated financial statements and related notes of the Company filed in its Annual Report on Form 10-K for the year ended December 31, 2011. The fiscal year of Gartner represents the twelve-month calendar period from January 1 through December 31. In the opinion of management, all normal recurring accruals and adjustments considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented herein have been included. The results of operations for the three and six months ended June 30, 2012 may not be indicative of the results of operations for the remainder of 2012.

On January 1, 2012, the Company adopted Accounting Standards Update (ASU) No. 2011-05, *Comprehensive Income (Topic 220-10): Presentation of Comprehensive Income*, and a related amendment. Comprehensive income includes income and expense items from nonowner sources and consists of two separate components: net income as reported and other comprehensive income. ASU No. 2011-05 eliminates the option to report comprehensive income and its components in the statement of stockholders' equity. Instead, the new rule optionally requires the presentation of net income and comprehensive income in one continuous statement, or in two separate, but consecutive statements. The Company has presented net income, other comprehensive income and its components, and comprehensive income in a new, separate statement called the *Condensed Consolidated Statements of Comprehensive Income*. While the Company's presentation of comprehensive income has changed, there are no changes to the components or amounts that are recognized in net income or other comprehensive income under current accounting guidance. As a result, the adoption of this new rule did not impact the Company's results of operations, cash flows, or financial position.

Principles of consolidation. The accompanying interim condensed consolidated financial statements include the accounts of the Company and its wholly- and majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Use of estimates. The preparation of the accompanying interim condensed consolidated financial statements requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the valuation of accounts receivable, goodwill, intangible assets, and other long-lived assets, as well as tax accruals and other liabilities. In addition, estimates are used in revenue recognition, income tax expense, performance-based compensation charges, depreciation and amortization, and the allowance for losses. Management believes its use of estimates in these interim condensed consolidated financial statements is reasonable.

Management continuously evaluates and revises its estimates using historical experience and other factors, including the general economic environment and actions it may take in the future. Such estimates are adjusted when facts and circumstances dictate. However, these estimates may involve significant uncertainties and judgments and cannot be determined with precision. In addition, these estimates are based on management's best judgment at a point in time. As a result, differences between such estimates and actual results could be material and would be reflected in the Company's consolidated financial statements in future periods.

Note 2 Acquisition

On May 31, 2012, the Company acquired Ideas International Limited (Ideas International), a publicly-owned Australian corporation (ASX: IDE) headquartered outside of Sydney with 40 employees that provides intelligence on IT infrastructure configurations and pricing data to IT professionals. The Company paid aggregate cash consideration of \$18.7 million for 100% of the outstanding shares of Ideas International, of which \$18.0 million was paid in June 2012 and \$0.7 million was paid in July 2012, which was funded from cash on hand. The Company's strategic objectives in acquiring Ideas International are to leverage Gartner's scale and worldwide distribution capability and introduce Ideas International's products and services to Gartner's much larger end user client base and to further penetrate the technology vendor market. All of Ideas International's business operations are being integrated into the Company's Research segment.

Gartner's financial statements include the operating results of Ideas International beginning with the date of acquisition. These operating results were not material to the Company's consolidated or segment operating results for the three and six months ended

Edgar Filing: GARTNER INC - Form 10-Q

June 30, 2012. The Company recorded \$1.2 million of pre-tax acquisition and integration charges related to the acquisition in the second quarter of 2012, which are classified in Acquisition and integration charges in the Condensed Consolidated Statements of Operations. Included in these charges are legal fees, consulting fees, severance, and other direct and incremental charges related to the acquisition. Had the Company acquired Ideas International on January 1, 2010, the impact to the Company's operating results for 2010 and 2011 would not have been material, and as a result pro forma financial information for those periods has not been presented.

The acquisition was accounted for under the acquisition method of accounting in accordance with FASB ASC Topic 805, *Business Combinations*. The acquisition method of accounting requires the consideration paid to be allocated to the net assets and liabilities acquired based on their estimated fair values as of the acquisition date, and any excess of the purchase price over the estimated fair value of the net assets acquired, including identifiable intangible assets, must be allocated to goodwill. The Company considers its allocation of the respective purchase price to be preliminary, particularly with respect to the valuation of certain tax related items. In accordance with FASB ASC Topic 805, a final determination of the purchase price allocation and resulting goodwill must be made within one year of the acquisition date. The Company anticipates that none of the recorded goodwill arising from the acquisition will be deductible for tax purposes.

The following table summarizes the preliminary allocation of the purchase price to the fair value of the assets acquired and liabilities assumed in the acquisition (dollars in thousands):

Assets:	
Cash	\$ 8,502
Fees receivable	1,310
Prepaid expenses and other current assets	560
Goodwill and amortizable intangible assets (1)	15,865
	<hr/>
Total assets	\$ 26,237
	<hr/>
Liabilities:	
Accounts payable and accrued liabilities	\$ 2,203
Deferred revenues	5,331
	<hr/>
Total liabilities	\$ 7,534
	<hr/>

(1) Includes \$7.5 million allocated to goodwill and \$8.4 million allocated to amortizable intangible assets. See Note 6 Goodwill and Intangible Assets below for additional information.

All of the recorded goodwill was included in the Company's Research segment. The Company believes the recorded goodwill is supported by the anticipated revenues related to the acquisition. The preliminary purchase price allocation includes an estimate of the fair value of the cost to fulfill the deferred revenue obligations which was determined by estimating the costs to provide the services plus a normal profit margin, and did not include any costs associated with selling efforts.

Note 3 Earnings per Share

The following table sets forth the calculations of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Numerator:				
Net income used for calculating basic and diluted earnings per share	\$ 41,484	\$ 32,223	\$ 75,705	\$ 61,414
	<hr/>	<hr/>	<hr/>	<hr/>
Denominator:				

Edgar Filing: GARTNER INC - Form 10-Q

Weighted average number of common shares used in the calculation of basic earnings per share	93,350	96,886	93,383	96,664
Common stock equivalents associated with stock-based compensation plans (1)	2,073	2,454	2,443	2,978
Shares used in the calculation of diluted earnings per share	95,423	99,340	95,826	99,642
Basic earnings per share	\$ 0.44	\$ 0.33	\$ 0.81	\$ 0.64
Diluted earnings per share	\$ 0.43	\$ 0.32	\$ 0.79	\$ 0.62

(1) Certain common stock equivalents were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. These amounted to 0.7 million and 0.8 million for the three months ended June 30, 2012 and 2011, respectively, and 0.7 million and 0.3 million for the six months ended June 30, 2012 and 2011, respectively.

Edgar Filing: GARTNER INC - Form 10-Q

Note 4 Stock-Based Compensation

The Company grants stock-based compensation awards as an incentive for employees and directors to contribute to the Company's long-term success. The Company currently awards stock-settled stock appreciation rights, service- and performance-based restricted stock units, and common stock equivalents. At June 30, 2012, the Company had 6.1 million shares of its common stock, par value \$.0005 per share (the Common Stock) available for awards of stock-based compensation under its 2003 Long-Term Incentive Plan.

The Company accounts for stock-based compensation in accordance with FASB ASC Topics 505 and 718, as interpreted by SEC Staff Accounting Bulletins No. 107 (SAB No. 107) and No. 110 (SAB No. 110). Stock-based compensation expense is based on the fair value of the award on the date of grant, which is then recognized as expense over the related service period, net of estimated forfeitures. The service period is the period over which the related service is performed, which is generally the same as the vesting period. Currently the Company issues treasury shares upon the exercise, release or settlement of stock-based compensation awards.

Determining the appropriate fair value model and calculating the fair value of stock-based compensation awards requires the input of certain complex and subjective assumptions, including the expected life of the stock compensation awards and the Common Stock price volatility. In addition, determining the appropriate amount of associated periodic expense requires management to estimate the amount of employee forfeitures and the likelihood of the achievement of certain performance targets. The assumptions used in calculating the fair value of stock-based compensation awards and the associated periodic expense represent management's best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change and the Company deems it necessary in the future to modify the assumptions it made or to use different assumptions, or if the quantity and nature of the Company's stock-based compensation awards changes, then the amount of expense may need to be adjusted and future stock-based compensation expense could be materially different from what has been recorded in the current period.

Stock-Based Compensation Expense

The Company recognized the following amounts of stock-based compensation expense by award type in the periods indicated (in millions):

Award type:	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Stock appreciation rights (SARs)	\$ 1.0	\$ 0.9	\$ 2.6	\$ 2.4
Common stock equivalents (CSEs)	0.2	0.1	0.3	0.3
Restricted stock units (RSUs)	6.7	6.8	15.9	14.3
Total expense (1)	\$ 7.9	\$ 7.8	\$ 18.8	\$ 17.0

Stock-based compensation expense was recognized in the Condensed Consolidated Statements of Operations as follows (in millions):

Amount recorded in:	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Cost of services and product development	\$ 3.2	\$ 3.4	\$ 8.6	\$ 7.9
Selling, general and administrative	4.7	4.4	10.2	9.1
Total expense (1)	\$ 7.9	\$ 7.8	\$ 18.8	\$ 17.0

- (1) The three months ended June 30, 2012 and 2011 includes charges of \$0.2 million and \$0.3 million, respectively, related to awards to retirement-eligible employees, since a portion of the awards granted to retirement-eligible employees vest immediately. The six months

Edgar Filing: GARTNER INC - Form 10-Q

ended June 30, 2012 and 2011 includes charges of \$3.2 million and \$2.8 million, respectively, for retirement-eligible employees. As of June 30, 2012, the Company had \$56.0 million of total unrecognized stock-based compensation cost, which is expected to be expensed over the remaining weighted-average service period of approximately 2.5 years.

Stock-Based Compensation Awards

The following disclosures provide information regarding the Company's stock-based compensation awards, all of which are classified as equity awards in accordance with FASB ASC Topic 505:

Stock Appreciation Rights

Stock-settled stock appreciation rights (SARs) permit the holder to participate in the appreciation of the Common Stock. SARs are settled in shares of Common Stock by the employee once the applicable vesting criteria have been met. SARs vest ratably over a four-year service period and expire seven years from the grant date. The fair value of SARs awards is recognized as compensation expense on a straight-line basis over four years. At the present time, SARs are awarded only to the Company's executive officers.

Edgar Filing: GARTNER INC - Form 10-Q

When SARs are exercised, the number of shares of Common Stock issued is calculated as follows: (1) the total proceeds from the SARs exercise (calculated as the closing price of the Common Stock on the date of exercise less the exercise price of the SARs, multiplied by the number of SARs exercised) is divided by (2) the closing price of the Common Stock as reported on the New York Stock Exchange on the exercise date. The Company withholds a portion of the shares of Common Stock issued upon exercise to satisfy minimum statutory tax withholding requirements. SARs recipients do not have any stockholder rights until after actual shares of Common Stock are issued in respect of the award, which is subject to the prior satisfaction of the vesting and other criteria relating to such grants.

The following table summarizes changes in SARs outstanding during the six months ended June 30, 2012:

	SARs (in millions)	Per Share Weighted- Average Exercise Price	Per Share Weighted- Average Grant Date Fair Value	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2011	2.5	\$ 20.39	\$ 7.66	4.00 years
Granted	0.4	37.81	12.99	6.61 years
Forfeited				n/a
Exercised	(0.5)	18.68	7.11	n/a
Outstanding at June 30, 2012 (1), (2)	2.4	\$ 23.45	\$ 8.60	4.20 years
Vested and exercisable at June 30, 2012 (2)	1.3	\$ 18.50	\$ 6.93	3.18 years

n/a=not applicable

(1) As of June 30, 2012, 1.1 million of the SARs outstanding were unvested. The Company expects that substantially all of these unvested awards will vest in future periods.

(2) As of June 30, 2012, total SARs outstanding had an intrinsic value of \$47.5 million. SARs vested and exercisable had an intrinsic value of \$31.1 million.

The fair value of the SARs was estimated on the date of grant using the Black-Scholes-Merton valuation model with the following weighted-average assumptions:

	Six Months Ended June 30, (1)	
	2012	2011
Expected dividend yield (2)	0%	0%
Expected stock price volatility (3)	40%	38%
Risk-free interest rate (4)	0.8%	2.2%
Expected life in years (5)	4.6	4.8

(1) The Company did not make any SARs grants during the three months ended June 30, 2012 or June 30, 2011.

(2) The dividend yield assumption is based on the history and expectation of the Company's dividend payouts. Historically, Gartner has not paid cash dividends on its Common Stock.

(3)

Edgar Filing: GARTNER INC - Form 10-Q

The determination of expected stock price volatility was based on both historical Common Stock prices and implied volatility from publicly traded options in the Common Stock.

- (4) The risk-free interest rate is based on the yield of a U.S. Treasury security with a maturity similar to the expected life of the award.
- (5) The expected life represents the Company's weighted-average estimate of the period of time the SARs are expected to be outstanding (that is, the period between the service inception date and the expected exercise date). Beginning January 1, 2012, the expected life has been calculated based on the Company's historical exercise data. Previously, the Company determined the expected life based on a simplified calculation permitted by SEC SAB No. 107 and SAB No. 110 since the necessary historical exercise data was not available. The change in methodology had an insignificant impact on the calculation of the expected life.

Edgar Filing: GARTNER INC - Form 10-Q

Restricted Stock Units

Restricted stock units (RSUs) give the awardee the right to receive shares of Common Stock when the vesting conditions are met and the restrictions lapse, and each RSU that vests entitles the awardee to one common share. RSU awardees do not have any of the rights of a Gartner stockholder, including voting rights and the right to receive dividends and distributions, until after the common shares are released. The fair value of RSUs is determined on the date of grant based on the closing price of the Common Stock as reported by the New York Stock Exchange on that date. Service-based RSUs vest ratably over four years and are expensed on a straight-line basis over four years. Performance-based RSUs are subject to both performance and service conditions, vest ratably over four years, and are expensed on an accelerated basis.

The following table summarizes the changes in RSUs outstanding during the six months ended June 30, 2012:

	Restricted Stock Units (RSUs) (in millions)	Per Share Weighted Average Grant Date Fair Value
Outstanding at December 31, 2011	3.1	\$ 21.53
Granted (1)	0.7	37.96
Vested and released	(1.3)	19.47
Forfeited		
Outstanding at June 30, 2012 (2), (3)	2.5	\$ 27.92

- (1) The 0.7 million RSUs granted in 2012 consisted of 0.3 million performance-based RSUs awarded to executives and 0.4 million service-based RSUs awarded to non-executive employees and certain board members. The 0.3 million performance-based RSUs awarded to executives represents the target amount of the award for the year, which is tied to an increase in the Company's subscription-based Research contract value (CV) for 2012. The final number of performance-based RSUs that will be granted to executives in 2012 could range from 0% to 200% of the target amount, depending on the actual increase in CV for the year as measured on December 31, 2012. If the specified minimum level of achievement is not met, the performance-based RSUs will be forfeited in their entirety, and any compensation expense previously recorded will be reversed.
- (2) The Company expects that substantially all of the outstanding awards will vest in future periods.
- (3) The weighted-average remaining contractual term of the outstanding RSUs is approximately 1.4 years.

Common Stock Equivalents

Common stock equivalents (CSEs) are convertible into Common Stock and each CSE entitles the holder to one common share. Members of our Board of Directors receive directors' fees payable in CSEs unless they opt to receive up to 50% of the fees in cash. Generally, the CSEs have no defined term and are converted into common shares when service as a director terminates unless the director has elected an accelerated release. The fair value of the CSEs is determined on the date of grant based on the closing price of the Common Stock as reported by the New York Stock Exchange on that date. CSEs vest immediately and as a result are recorded as expense on the date of grant.

The following table summarizes the changes in CSEs outstanding during the six months ended June 30, 2012:

Common Stock Equivalents (CSEs)	Per Share Weighted Average Grant Date Fair Value
----------------------------------------------------	-------------------------------------------------------------------------

Edgar Filing: GARTNER INC - Form 10-Q

Outstanding at December 31, 2011	97,268	\$ 15.93
Granted	5,793	44.05
Converted to common shares	(4,183)	44.03
Outstanding at June 30, 2012	98,878	\$ 16.39

Stock Options

Historically, the Company granted stock options to employees that allowed them to purchase shares of Common Stock at a certain price. The Company has not made any stock option grants since 2006. All outstanding options are fully vested and there is no remaining unamortized cost. The Company received \$6.8 million and \$14.6 million in cash from option exercises in the six months ended June 30, 2012 and 2011, respectively.

Edgar Filing: GARTNER INC - Form 10-Q

The following table summarizes the changes in stock options outstanding during the six months ended June 30, 2012:

	<u>Options in millions</u>	<u>Per Share Weighted- Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value (in millions)</u>
Vested and outstanding at December 31, 2011	1.2	\$ 10.93	1.47 years	\$ 27.7
Exercised (1)	(0.7)	10.87	n/a	n/a
Vested and outstanding at June 30, 2012	0.5	\$ 10.99	1.48 years	\$ 17.1

n/a=not applicable

(1) Options exercised during the six months ended June 30, 2012 had an intrinsic value of \$18.7 million.
Employee Stock Purchase Plan

The Company has an employee stock purchase plan (the "ESP Plan") under which eligible employees are permitted to purchase Common Stock through payroll deductions, which may not exceed 10% of an employee's compensation (or \$23,750 in any calendar year), at a price equal to 95% of the closing price of the Common Stock as reported by the New York Stock Exchange at the end of each offering period.

At June 30, 2012, the Company had 1.3 million shares available for purchase under the ESP Plan. The ESP Plan is considered non-compensatory under FASB ASC Topic 718, and as a result the Company does not record compensation expense for employee share purchases. The Company received \$2.0 million and \$1.8 million in cash from share purchases under the ESP Plan in the six months ended June 30, 2012 and 2011, respectively.

Note 5 Segment Information

The Company manages its business through three reportable segments: Research, Consulting and Events. Research consists primarily of subscription-based research products, access to research inquiry, peer networking services, and membership programs. Consulting consists primarily of consulting, measurement engagements, and strategic advisory services. Events consists of various symposia, conferences, and exhibitions.

The Company evaluates reportable segment performance and allocates resources based on gross contribution margin. Gross contribution, as presented in the table below, is defined as operating income excluding certain Cost of services and product development and Selling, general and administrative expenses, depreciation, and amortization of intangibles. Certain bonus and fringe benefit costs included in consolidated Cost of services and product development are not allocated to segment expense. The accounting policies used by the reportable segments are the same as those used by the Company. There are no intersegment revenues.

The Company does not identify or allocate assets, including capital expenditures, by reportable segment. Accordingly, assets are not reported by segment because the information is not available by segment and is not reviewed in the evaluation of segment performance or in making decisions in the allocation of resources.

The following tables present information about the Company's reportable segments (in thousands):

Three Months Ended June 30, 2012:	<u>Research</u>	<u>Consulting</u>	<u>Events</u>	<u>Consolidated</u>
Revenues	\$ 278,302	\$ 76,676	\$ 42,504	\$ 397,482
Gross contribution	189,471	27,906	20,394	237,771
Corporate and other expenses				(175,049)
Operating income				\$ 62,722

Edgar Filing: GARTNER INC - Form 10-Q

Three Months Ended June 30, 2011:	<u>Research</u>	<u>Consulting</u>	<u>Events</u>	<u>Consolidated</u>
Revenues	\$ 250,015	\$ 77,962	\$ 37,566	\$ 365,543
Gross contribution	168,304	28,873	17,315	214,492
Corporate and other expenses				(162,924)
Operating income				<u>\$ 51,568</u>

Six Months Ended June 30, 2012:	<u>Research</u>	<u>Consulting</u>	<u>Events</u>	<u>Consolidated</u>
Revenues	\$ 552,922	\$ 151,239	\$ 62,492	\$ 766,653
Gross contribution	378,074	55,506	28,289	461,869
Corporate and other expenses				(345,591)
Operating income				<u>\$ 116,278</u>

Edgar Filing: GARTNER INC - Form 10-Q

Six Months Ended June 30, 2011:	<u>Research</u>	<u>Consulting</u>	<u>Events</u>	<u>Consolidated</u>
Revenues	\$ 493,450	\$ 148,592	\$ 53,068	\$ 695,110
Gross contribution	332,805	54,362	22,980	410,147
Corporate and other expenses				(312,798)
Operating income				<u>\$ 97,349</u>

Note 6 Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the tangible and identifiable intangible net assets acquired. The evaluation of goodwill is performed in accordance with FASB ASC Topic 350, which requires an annual assessment of potential goodwill impairment at the reporting unit level. A reporting unit can be an operating segment or a business if discrete financial information is prepared and reviewed by management. The Company has three reporting units: Research, Consulting, and Events.

The following table presents changes to the carrying amount of goodwill by reporting unit during the six months ended June 30, 2012 (in thousands):

	<u>Research</u>	<u>Consulting</u>	<u>Events</u>	<u>Total</u>
Balance, December 31, 2011	\$ 366,980	\$ 99,677	\$ 41,893	\$ 508,550
Addition due to acquisition (1)	7,455			7,455
Foreign currency translation adjustments	(1,005)	34	(32)	(1,003)
Balance, June 30, 2012 (2)	<u>\$ 373,430</u>	<u>\$ 99,711</u>	<u>\$ 41,861</u>	<u>\$ 515,002</u>

(1) The Company acquired Ideas International in the second quarter of 2012 and recorded \$7.5 million of goodwill. All of the recorded goodwill resulting from the acquisition has been included in the Research segment. See Note 2 Acquisition above for additional information.

(2) The Company does not have any accumulated goodwill impairment losses.

Amortizable Intangible Assets

The following tables present the carrying amounts of amortizable intangible assets as of the periods indicated (in thousands):

June 30, 2012	<u>Trade Name</u>	<u>Customer Relationships</u>	<u>Content</u>	<u>Software</u>	<u>Total</u>
Gross cost (1)	\$ 6,006	\$ 10,468	\$ 3,269	\$ 1,887	\$ 21,630
Accumulated amortization (2)	(2,890)	(4,569)	(68)	(51)	(7,578)
Net	<u>\$ 3,116</u>	<u>\$ 5,899</u>	<u>\$ 3,201</u>	<u>\$ 1,836</u>	<u>\$ 14,052</u>

December 31, 2011	<u>Trade Name</u>	<u>Customer Relationships</u>	<u>Total</u>
--------------------------	-------------------	-------------------------------	--------------

Edgar Filing: GARTNER INC - Form 10-Q

Gross cost	\$ 5,758	\$ 7,210	\$ 12,968
Accumulated amortization (2)	(2,303)	(3,605)	(5,908)
Net	\$ 3,455	\$ 3,605	\$ 7,060

(1) The Company acquired Ideas International in the second quarter of 2012 and recorded \$8.4 million of amortizable intangible assets, allocated as follows: Trade Name \$0.2 million; Customer Relationships \$3.2 million; Content \$3.2 million; and Software \$1.8 million.

(2) Intangible assets are being amortized against earnings over the following periods: Trade name 2 to 5 years; Customer relationships 4 years; Content 4 years; Software 3 years.

Aggregate amortization expense related to intangible assets was \$0.9 million and \$2.5 million for the three months ended June 30, 2012 and 2011, respectively, and \$1.7 million and \$5.0 million for the six months ended June 30, 2012 and 2011, respectively.

Edgar Filing: GARTNER INC - Form 10-Q

The estimated future amortization expense by year from amortizable intangibles is as follows (in thousands):

2012 (remaining six months)	\$ 2,660
2013	5,300
2014	3,425
2015	1,840
2016	827
	\$ 14,052

Note 7 Debt

Credit Agreement

The Company has a credit arrangement that provides for a five-year, \$200.0 million term loan and a \$400.0 million revolving credit facility that it entered into in December 2010 (the 2010 Credit Agreement). The 2010 Credit Agreement contains an expansion feature by which the term loan and revolving credit facility may be increased, at the Company's option and under certain conditions, up to an additional \$150.0 million in the aggregate. The term loan will be repaid in 19 consecutive quarterly installments which commenced on March 31, 2011, plus a final payment due on December 22, 2015, and may be prepaid at any time without penalty or premium at the Company's option. The revolving credit facility may be used for loans, and up to \$40.0 million may be used for letters of credit. The revolving loans may be borrowed, repaid and re-borrowed until December 22, 2015, at which time all amounts borrowed must be repaid.

Amounts borrowed under the 2010 Credit Agreement bear interest at a rate equal to, at the Company's option, either (i) the greatest of: the administrative agent's prime rate; the average rate on overnight federal funds plus 1/2 of 1%; and the Eurodollar rate (adjusted for statutory reserves) plus 1%, in each case plus a margin equal to between 0.50% and 1.25% depending on the Company's leverage ratio as of the end of the four consecutive fiscal quarters most recently ended, or (ii) the Eurodollar rate (adjusted for statutory reserves) plus a margin equal to between 1.50% and 2.25%, depending on the Company's leverage ratio as of the end of the four consecutive fiscal quarters most recently ended.

The 2010 Credit Agreement contains certain customary restrictive loan covenants, including, among others, financial covenants requiring a maximum leverage ratio, a minimum interest expense coverage ratio, and covenants limiting the Company's ability to incur indebtedness, grant liens, make acquisitions, be acquired, dispose of assets, pay dividends, repurchase stock, make capital expenditures, make investments and enter into certain transactions with affiliates. The Company was in full compliance with these covenants as of June 30, 2012 and December 31, 2011.

The following table provides information regarding the Company's borrowings under the 2010 Credit Agreement:

Description:	Amount Outstanding June 30, 2012 (In thousands)	Contractual Annualized Interest Rate June 30, 2012	Amount Outstanding December 31, 2011 (In thousands)
Term loan (1)	\$ 165,000	1.96%	\$ 180,000
Revolver (1), (2)	35,000	1.96%	20,000
Total	\$ 200,000		\$ 200,000

(1) The term and revolver contractual rates consisted of a 0.46%, three-month floating Eurodollar base rate plus a margin of 1.50%. However, the Company has an interest rate swap contract which converts the floating Eurodollar base rates to a fixed base rate on \$200.0 million of borrowings (see below). As a result, the Company's effective annual interest rate on its total debt outstanding as of June 30, 2012 was approximately 3.62%.

(2) The Company had \$361.8 million of additional borrowing capacity on the revolver (not including the expansion feature) as of June 30, 2012.

Edgar Filing: GARTNER INC - Form 10-Q

As of June 30, 2012, the Company also had \$88 thousand of borrowings outstanding under a separate, short-term lending arrangement.

Interest Rate Swap Hedge

The Company has a \$200.0 million notional fixed-for-floating interest rate swap contract which it designates as a hedge of the forecasted interest payments on the Company's variable rate borrowings. Under the swap terms, the Company pays a base fixed rate

Edgar Filing: GARTNER INC - Form 10-Q

of 2.26% and in return receives a floating Eurodollar base rate on \$200.0 million of borrowings. The Company entered into this swap contract in December 2010 and it matures in September 2015.

The Company accounts for the interest rate swap as a cash flow hedge in accordance with FASB ASC Topic 815. Since the swap is hedging forecasted interest payments, changes in the fair value of the swap are recorded in OCI as long as the swap continues to be a highly effective hedge of the designated interest rate risk. Any ineffective portion of change in the fair value of the hedge is recorded in earnings. There was no ineffective portion of the hedge at June 30, 2012 or December 31, 2011. The interest rate swap had a negative fair value to the Company of \$10.6 million and \$9.9 million at June 30, 2012 and December 31, 2011, respectively, which is deferred and classified in OCI, net of tax effect.

Letters of Credit

The Company had \$7.1 million of letters of credit and related guarantees outstanding at June 30, 2012. The Company enters into these instruments in the ordinary course of business to facilitate transactions with customers and others.

Note 8 Equity

Share Repurchase Program

The Company has a \$500.0 million share repurchase program, of which \$231.0 million remained available for share repurchases as of June 30, 2012. Repurchases may be made from time-to-time through open market purchases, private transactions, tender offers or other transactions. The amount and timing of repurchases will be subject to the availability of stock, prevailing market conditions, the trading price of the stock, the Company's financial performance and other conditions. Repurchases may also be made from time-to-time in connection with the settlement of the Company's shared-based compensation awards. Repurchases may be funded from operating cash flow or borrowings.

The Company's share repurchase activity is included in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Number of shares repurchased (1)	184,831	932,624	2,164,260	2,343,452
Cost of repurchased shares (in thousands)	\$ 7,517	\$ 35,964	\$ 84,674	\$ 87,860

(1) The average purchase price for the shares was \$40.67 and \$38.56 for the three months ended June 30, 2012 and 2011, respectively, and \$39.12 and \$37.49 for the six months ended June 30, 2012 and 2011, respectively.

Note 9 Income Taxes

The provision for income taxes was \$19.0 million for the three months ended June 30, 2012 compared to \$16.0 million in the prior year quarter. The effective tax rate was 31.4% for the three months ended June 30, 2012 and 33.1% for the same period in 2011. The decrease in the effective tax rate was primarily due to the impact of certain state tax credits recognized in the second quarter of 2012, offset, in part, by a change in the estimated annual mix of pre-tax income by jurisdiction.

The provision for income taxes was \$35.2 million for the six months ended June 30, 2012 compared to \$29.4 million for the same period in 2011. The effective tax rate was 31.7% for the six months ended June 30, 2012 and 32.4% for the same period in 2011. The decrease in the effective tax rate was primarily due to the impact of certain state tax credits recognized in the second quarter of 2012, offset, in part, by a change in the estimated annual mix of pre-tax income by jurisdiction.

As of June 30, 2012 and December 31, 2011, the Company had gross unrecognized tax benefits of \$19.3 million and \$18.3 million, respectively. It is reasonably possible that the gross unrecognized tax benefits will decrease by \$3.4 million within the next 12 months, primarily due to settlements of outstanding audits and the expiration of the relevant statutes of limitation. As of June 30, 2012 and December 31, 2011, the Company had Other liabilities of \$15.9 million and \$15.4 million, respectively, related to long term uncertain tax positions.

Edgar Filing: GARTNER INC - Form 10-Q

The Internal Revenue Service (IRS) has completed its examination of the federal income tax return of the Company for the tax year ended December 31, 2007. In December 2010, the Company received a report of the audit findings. The Company disagrees with certain of the proposed adjustments and is disputing this matter through applicable IRS and judicial procedures, as appropriate. Separately, in the second quarter of 2011 the IRS commenced an audit of the Company s 2008 and 2009 tax years. The Company continues to comply with all information requests and no material adjustments of the Company s tax positions have been proposed at this time for the 2008 and 2009 tax years. Although the final resolution of these audits is uncertain and there are no assurances that the ultimate resolution will not exceed the amounts recorded, the Company believes that the ultimate disposition of these matters will not have a material adverse effect on its consolidated financial position, cash flows, or results of operations.

Edgar Filing: GARTNER INC - Form 10-Q

Note 10 Derivatives and Hedging

The Company enters into a limited number of derivative contracts to offset the potentially negative economic effects of interest rate and foreign exchange movements. The Company accounts for its outstanding derivative contracts in accordance with FASB ASC Topic 815, which requires all derivatives, to include derivatives designated as accounting hedges, to be recorded on the balance sheet at fair value. The following tables provide information regarding the Company's outstanding derivatives contracts (in thousands, except for number of outstanding contracts) as of the dates indicated:

June 30, 2012

Derivative Contract Type	Number of Outstanding Contracts	Notional Amounts	Fair Value Asset (Liability) (3)	Balance Sheet Line Item	Unrealized Loss Recorded in OCI
Interest rate swap (1)	1	\$ 200,000	\$ (10,560)	Other liabilities	\$ (6,336)
Foreign currency forwards (2)	35	31,860	31	Accrued liabilities	
Total	36	\$ 231,860	\$ (10,529)		\$ (6,336)

December 31, 2011

Derivative Contract Type	Number of Outstanding Contracts	Notional Amounts	Fair Value Asset (Liability) (3)	Balance Sheet Line Item	Unrealized Loss Recorded in OCI
Interest rate swap (1)	1	\$ 200,000	\$ (9,891)	Other liabilities	\$ (5,934)
Interest rate swaps (4)	2	30,750	(98)	Other liabilities	
Foreign currency forwards (2)	60	99,585	272	Other current assets	
Total	63	\$ 330,335	\$ (9,717)		\$ (5,934)

(1) The Company has designated this swap as a cash flow hedge of the forecasted interest payments on borrowings (see Note 7 Debt). As a result, changes in fair value of this swap are deferred and are recorded in OCI, net of tax effect.

(2) The Company has foreign exchange transaction risk since it typically enters into transactions in the normal course of business that are denominated in foreign currencies that differ from the local functional currency. The Company enters into short-term foreign currency forward exchange contracts to offset the economic effects of these foreign currency transaction risks. These contracts are accounted for at fair value with realized and unrealized gains and losses recognized in Other expense, net since the Company does not designate these contracts as hedges for accounting purposes. Substantially all of the outstanding contracts at June 30, 2012 matured by the end of July 2012.

(3) See Note 11 Fair Value Disclosures for the determination of the fair value of these instruments.

(4) These swaps matured in January 2012. Changes in the fair value of these swaps were recognized in earnings. The Company's derivative counterparties are all large investment grade financial institutions. The Company did not have any collateral arrangements with its derivative counterparties, and none of the derivative contracts contained credit-risk guarantees.

The following table provides information regarding derivative gains and losses that have been recognized in the Condensed Consolidated Statements of Operations for the periods indicated (in thousands):

Edgar Filing: GARTNER INC - Form 10-Q

Amount recorded in:	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest expense, net (1)	\$ 903	\$ 1,040	\$ 1,750	\$ 2,078
Other expense (income), net (2)	(353)	676	(599)	3,770
Total expense, net	\$ 550	\$ 1,716	\$ 1,151	\$ 5,848

(1) Consists of interest expense from interest rate swap contracts.

(2) Consists of realized and unrealized gains and losses on foreign currency forward contracts.

Edgar Filing: GARTNER INC - Form 10-Q

Note 11 Fair Value Disclosures

The Company's financial instruments include cash equivalents, fees receivable from customers, accounts payable, and accruals which are normally short-term in nature. The Company believes the carrying amounts of these financial instruments reasonably approximate their fair value due to their short-term nature. The Company's financial instruments also includes borrowings outstanding under its 2010 Credit Agreement, and at June 30, 2012, the Company had \$200.0 million of floating rate debt outstanding under this arrangement, which is carried at amortized cost. The Company believes the carrying amount of the outstanding borrowings reasonably approximates fair value since the rate of interest on the borrowings reflect current market rates of interest for similar instruments with comparable maturities.

FASB ASC Topic 820 provides a framework for the measurement of fair value and a valuation hierarchy based upon the transparency of inputs used in the valuation of assets and liabilities. Classification within the hierarchy is based upon the lowest level of input that is significant to the resulting fair value measurement. The valuation hierarchy contains three levels. Level 1 measurements consist of quoted prices in active markets for identical assets or liabilities. Level 2 measurements include significant other observable inputs such as quoted prices for similar assets or liabilities in active markets; identical assets or liabilities in inactive markets; observable inputs such as interest rates and yield curves; and other market-corroborated inputs. Level 3 measurements include significant unobservable inputs, such as internally-created valuation models.

On January 1, 2012, the Company adopted ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which updates FASB ASC Topic 820 with new requirements. These include: (1) a prohibition on grouping financial instruments for purposes of determining fair value, except when an entity manages market and credit risks on the basis of the entity's net exposure to the group; (2) an extension of the prohibition against the use of a blockage factor to all fair value measurements (that prohibition currently applies only to financial instruments with quoted prices in active markets); and (3) a requirement that for recurring Level 3 fair value measurements, entities disclose additional quantitative information about unobservable inputs, a description of the valuation process used and qualitative details about the sensitivity of the measurements and their potential impact on operating results.

The Company has a limited number of assets and liabilities recorded in its Consolidated Balance Sheets that are remeasured to fair value on a recurring basis, and the Company does not currently utilize Level 3 valuation inputs to remeasure any of its assets or liabilities. In addition, the Company typically does not transfer assets or liabilities between different levels of the fair value hierarchy. As a result, the adoption of ASU No. 2011-04 did not result in any changes to the Company's processes for determining fair values or require additional fair value disclosures.

The Company's assets and liabilities remeasured to fair value are presented in the following table (in thousands):

Description:	Fair Value June 30, 2012	Fair Value December 31, 2011
Assets:		
Deferred compensation plan assets (1)	\$ 25,865	\$ 25,050
Pension reinsurance asset (2)	13,845	12,980
Foreign currency forward contracts (3)	31	272
	<u>\$ 39,741</u>	<u>\$ 38,302</u>
Liabilities:		
Deferred compensation plan liabilities (1)	\$ 29,085	\$ 28,100
Interest rate swap contract (4)	10,560	9,989
	<u>\$ 39,645</u>	<u>\$ 38,089</u>

- (1) The Company has a deferred compensation plan for the benefit of certain highly compensated employees. The assets consist of investments in money market and mutual funds, and company-owned life insurance contracts, all of which are valued based on Level 1 or Level 2 valuation inputs. The related deferred compensation plan liabilities are recorded at fair value, or the estimated amount needed to settle the liability, which the Company also considers to be based on a Level 2 input.

Edgar Filing: GARTNER INC - Form 10-Q

- (2) The Company maintains a pension reinsurance asset to fund payments for one of its defined benefit pension plans. The reinsurance asset is carried at its cash surrender value, which the Company believes approximates its fair value. The Company considers the reinsurance contract to be valued based on a Level 2 input.
- (3) The Company enters into foreign currency forward exchange contracts to hedge the effects of adverse fluctuations in foreign currency exchange rates. Valuation of the foreign currency forward contracts is based on observable foreign currency exchange rates in active markets, which the Company considers a Level 2 input.

- (4) The Company has an interest rate swap contract which hedges the interest rate on its borrowings (see Note 7 Debt). To determine the fair value of this over-the-counter financial instrument, the Company relies on a mark-to-market valuation prepared by a third-party broker. The valuation is based on observable interest rates from recently executed market transactions or broker quotes corroborated by other observable market data. Accordingly, the fair value of the swap is determined under a Level 2 input. The Company independently corroborates the reasonableness of the swap valuation prepared by the third-party broker through the use of an electronic quotation service.

Note 12 Employee Benefits

Defined Benefit Pension Plans

The Company has defined-benefit pension plans in several of its international locations. Benefits paid under these plans are based on years of service and level of employee compensation. The Company's defined benefit pension plans are accounted for in accordance with FASB ASC Topics 715 and 960. Net periodic pension expense was \$0.7 million for both the three months ended June 30, 2012 and 2011, and \$1.3 million for both the six months ended June 30, 2012 and 2011.

Note 13 Commitments and Contingencies

Contingencies

The Company is involved in legal proceedings and litigation arising in the ordinary course of business. We believe that the potential liability, if any, in excess of amounts already accrued from all proceedings, claims and litigation will not have a material effect on our financial position, cash flows, or results of operations when resolved in a future period.

The Company has various agreements that may obligate us to indemnify the other party with respect to certain matters. Generally, these indemnification clauses are included in contracts arising in the normal course of business under which we customarily agree to hold the other party harmless against losses arising from a breach of representations related to such matters as title to assets sold and licensed or certain intellectual property rights. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of the Company's obligations and the unique facts of each particular agreement. Historically, payments made by us under these agreements have not been material. As of June 30, 2012, the Company did not have any indemnification agreements that could require material payments.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of the following Management's Discussion and Analysis (MD&A) is to help facilitate the understanding of significant factors influencing the quarterly operating results, financial condition and cash flows of Gartner, Inc. Additionally, the MD&A also conveys our expectations of the potential impact of known trends, events or uncertainties that may impact future results. You should read this discussion in conjunction with our condensed consolidated financial statements and related notes included in this report and in our Annual Report on Form 10-K for the year ended December 31, 2011. Historical results and percentage relationships are not necessarily indicative of operating results for future periods. References to Gartner, the Company, we, our, and us in this MD&A are to Gartner, Inc. and its subsidiaries.

On May 31, 2012, we acquired Ideas International Limited (Ideas International), a publicly-owned Australian corporation (see Note 2 Acquisition in the Notes to the Condensed Consolidated Financial Statements for additional information). All of Ideas International's business operations are being integrated into the Company's Research segment, and its operating results and business measurements are included in the Company's consolidated and segment results and disclosures beginning on the date of acquisition. The impact of the acquisition was not material for the three and six months ended June 30, 2012.

Forward-Looking Statements

In addition to historical information, this Quarterly Report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are any statements other than statements of historical fact, including statements regarding our expectations, beliefs, hopes, intentions or strategies regarding the future. In some cases, forward-looking statements can be identified by the use of words such as may, will, expect, should, believe, plan, anticipate, estimate, predict, potential, continue, or other words of similar meaning.

Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in, or implied by, the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Factors That May Affect Future Performance and elsewhere in this Quarterly Report and in our Annual Report on Form 10-K for the year ended December 31, 2011. Readers should not place undue reliance on these forward-looking statements, which reflect management's opinion only as of the date on which they were made. Except as required by law, we disclaim any obligation to review or update these forward-looking statements to reflect events or circumstances as they occur. Readers should review carefully any risk factors described in other reports we filed with the SEC.

BUSINESS OVERVIEW

Gartner, Inc. (NYSE: IT) is the world's leading information technology research and advisory company. We deliver the technology-related insight necessary for our clients to make the right decisions, every day. From CIOs and senior IT leaders in corporations and government agencies, to business leaders in high-tech and telecom enterprises and professional services firms, to supply chain professionals and technology investors, we are the valuable partner to clients in over 12,470 distinct organizations. We work with every client to research, analyze and interpret the business of IT within the context of their individual role. Founded in 1979, Gartner is headquartered in Stamford, Connecticut, U.S.A., and has approximately 5,200 associates, including 1,361 research analysts and consultants, and clients in 85 countries.

The foundation for all Gartner products and services is our independent research on IT and supply chain issues. The findings from this research are delivered through our three business segments: Research, Consulting and Events:

Research provides objective insight on critical and timely technology and supply chain initiatives for CIOs, other IT professionals, supply chain leaders, technology companies and the investment community through reports, briefings, proprietary tools, access to our analysts, peer networking services, and membership programs that enable our clients to make better decisions about their IT and supply chain investments.

Consulting provides customized solutions to unique client needs through on-site, day-to-day support, as well as proprietary tools for measuring and improving IT performance with a focus on cost, performance, efficiency, and quality.

Events provide IT, supply chain, and business professionals the opportunity to attend various symposia, conferences and exhibitions to learn, contribute and network with their peers. From our flagship event Symposium/ITxpo, to Summits focused on specific technologies and industries, to experimental workshop-style Seminars, our events distill the latest Gartner research into applicable insight and advice.

For more information regarding Gartner and our products and services, visit www.gartner.com.

BUSINESS MEASUREMENTS

We believe the following business measurements are important performance indicators for our business segments:

BUSINESS SEGMENT	BUSINESS MEASUREMENTS
Research	<p>Contract value represents the value attributable to all of our subscription-related research products that recognize revenue on a ratable basis. Contract value is calculated as the annualized value of all subscription research contracts in effect at a specific point in time, without regard to the duration of the contract.</p> <p>Client retention rate represents a measure of client satisfaction and renewed business relationships at a specific point in time. Client retention is calculated on a percentage basis by dividing our current clients, who were also clients a year ago, by all clients from a year ago.</p> <p>Wallet retention rate represents a measure of the amount of contract value we have retained with clients over a twelve-month period. Wallet retention is calculated on a percentage basis by dividing the contract value of clients, who were clients one year earlier, by the total contract value from a year earlier, excluding the impact of foreign currency exchange. When wallet retention exceeds client retention, it is an indication of retention of higher-spending clients, or increased spending by retained clients, or both.</p>
Consulting	<p>Consulting backlog represents future revenue to be derived from in-process consulting, measurement and strategic advisory services engagements.</p> <p>Utilization rates represent a measure of productivity of our consultants. Utilization rates are calculated for billable headcount on a percentage basis by dividing total hours billed by total hours available to bill.</p> <p>Billing Rate represents earned billable revenue divided by total billable hours.</p> <p>Average annualized revenue per billable headcount represents a measure of the revenue generating ability of an average billable consultant and is calculated periodically by multiplying the average billing rate per hour times the utilization percentage times the billable hours available for one year.</p>
Events	<p>Number of events represents the total number of hosted events completed during the period.</p> <p>Number of attendees represents the total number of people who attend events.</p>

EXECUTIVE SUMMARY OF OPERATIONS AND FINANCIAL POSITION

We have executed a consistent growth strategy since 2005 to drive double-digit revenue and earnings growth. The fundamentals of our strategy include a focus on creating extraordinary research insight, deliver innovative and highly differentiated product offerings, build a strong sales capability, provide world class client service with a focus on client engagement and retention, and continuously improve our operational effectiveness.

We had total revenues of \$397.5 million in the second quarter of 2012, an increase of 9% compared to second quarter 2011 and 12% excluding the unfavorable foreign exchange impact. Revenues increased by double-digits in our Research and Events segments, at 11% and 13%, respectively, while Consulting was down slightly. For a more complete discussion of our results by segment, see Segment Results below. For the six months ended June 30, 2012, total revenues increased 10%, or 12% excluding the unfavorable impact of foreign exchange.

We had net income of \$41.5 million in the second quarter of 2012, an increase of 29% compared to second quarter 2011, while net income for the first half of 2012 was up 23%. Diluted earnings per share increased \$0.11 per share quarter-over-quarter, or 34%, to \$0.43 per share for second quarter 2012. Our operating cash flow was \$99.5 million in the first half of 2012, an increase of 56% compared to the first half of 2011.

During the first half of 2012, we used \$84.7 million of cash to repurchase our common shares as part of our continued focus on enhancing shareholder value and we used \$9.5 million to purchase Ideas International. We had \$150.5 million of cash and cash

Edgar Filing: GARTNER INC - Form 10-Q

equivalents on June 30, 2012 and we had \$361.8 million of available borrowing capacity under our revolving credit facility. We continue to believe that the Company has adequate liquidity to fund our current plans.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires the application of appropriate accounting policies and the use of estimates. Our significant accounting policies are described in Note 1 in the Notes to Consolidated Financial Statements of Gartner, Inc. contained in our Annual Report on Form 10-K for the year ended December 31, 2011. Management considers the policies discussed below to be critical to an understanding of our financial statements because their application requires complex and subjective management judgments and estimates. Specific risks for these critical accounting policies are also described below.

The preparation of our financial statements requires us to make estimates and assumptions about future events. We develop our estimates using both current and historical experience, as well as other factors, including the general economic environment and actions we may take in the future. We adjust such estimates when facts and circumstances dictate. However, our estimates may involve significant uncertainties and judgments and cannot be determined with precision. In addition, these estimates are based on our best judgment at a point in time and as such these estimates may ultimately differ materially from actual results. Also, on-going changes in our estimates could be material and would be reflected in the Company's consolidated financial statements in future periods.

Our critical accounting policies are as follows:

Revenue recognition Revenue is recognized in accordance with the requirements of U.S. GAAP as well as SEC Staff Accounting Bulletins No. 101, Revenue Recognition in Financial Statements (SAB 101), and SEC Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104). Revenue is only recognized once all required criteria for revenue recognition have been met. Revenue by significant source is accounted for as follows:

Research revenues are derived from subscription contracts for research products and are deferred and recognized ratably over the applicable contract term. Fees from research reprints are recognized when the reprint is delivered.

Consulting revenues are principally generated from fixed fee and time and material engagements. Revenues from fixed fee contracts are recognized on a proportional performance basis. Revenues from time and materials engagements are recognized as work is delivered and/or services are provided. Revenues related to contract optimization contracts are contingent in nature and are only recognized upon satisfaction of all conditions related to their payment.

Events revenues are deferred and recognized upon the completion of the related symposium, conference or exhibition.

The majority of research contracts are billable upon signing, absent special terms granted on a limited basis from time to time. All research contracts are non-cancelable and non-refundable, except for government contracts that may have cancellation or fiscal funding clauses. It is our policy to record the entire amount of the contract that is billable as a fee receivable at the time the contract is signed with a corresponding amount as deferred revenue, since the contract represents a legally enforceable claim.

Uncollectible fees receivable We maintain an allowance for losses which is composed of a bad debt allowance and a sales reserve. Provisions are charged against earnings, either as a reduction in revenues or an increase to expense. The measurement of likely and probable losses and the allowance for losses is based on historical loss experience, aging of outstanding receivables, an assessment of current economic conditions and the financial health of specific clients. This evaluation is inherently judgmental and requires estimates. These valuation reserves are periodically re-evaluated and adjusted as more information about the ultimate collectability of fees receivable becomes available. Circumstances that could cause our valuation reserves to increase include changes in our clients' liquidity and credit quality, other factors negatively impacting our clients' ability to pay their obligations as they come due, and the effectiveness of our collection efforts.

The following table provides our total fees receivable, along with the related allowance for losses, as of the date indicated (in thousands):

	June 30, 2012	December 31, 2011
Total fees receivable	\$ 396,574	\$ 428,293
Allowance for losses	(7,160)	(7,260)
Fees receivable, net	\$ 389,414	\$ 421,033

Goodwill and other intangible assets Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the tangible and identifiable intangible net assets acquired. Goodwill is not amortized against earnings, but is periodically evaluated for impairment in accordance with FASB ASC Topic, which requires goodwill to be assessed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In addition, an impairment evaluation of our amortizable intangible assets may also be performed on a periodic basis should events or circumstances indicate potential impairment. If we determine that the fair value of a reporting unit or an intangible asset is less than its related carrying amount, we must recognize an impairment charge against earnings. Among the factors we consider important that could trigger an impairment review are the following:

Significant under-performance relative to historical or projected future operating results;

Significant changes in the manner of our use of acquired assets or the strategy for our overall business;

Significant negative industry or general economic trends;

Significant decline in our stock price for a sustained period; and

Our market capitalization relative to net book value.

The determination of the estimated fair value of our reporting units, whether based on a quantitative or qualitative assessment, contains judgments and assumptions regarding future trends and events, with both the precision and reliability of the resulting estimates subject to uncertainty. As a result, if the Company deems it necessary in the future to modify its judgments and assumptions, or if actual results are materially different from our expectations, then the estimated reporting unit values could change, potentially resulting in goodwill impairment charges in future periods.

The Company completed its most recent required annual goodwill impairment assessment as of September 30, 2011 and concluded that the fair value of its reporting units substantially exceeded their respective carrying amounts.

Accounting for income taxes As we prepare our consolidated financial statements, we estimate our income taxes in each of the jurisdictions where we operate. This process involves estimating our current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We record a valuation allowance to reduce our deferred tax assets when future realization is in question. We consider the availability of loss carryforwards, existing deferred tax liabilities, future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. In the event we determine that we are able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment is made to reduce the valuation allowance and increase income in the period such determination is made. Likewise, if we determine that we will not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the valuation allowance is charged against income in the period such determination is made.

Accounting for stock-based compensation The Company accounts for stock-based compensation in accordance with FASB ASC Topics 505 and 718, as interpreted by SEC Staff Accounting Bulletins No. 107 (SAB No. 107) and No. 110 (SAB No. 110). The Company recognizes stock-based compensation expense, which is based on the fair value of the award on the date of grant, over the related service period, net of estimated forfeitures (see Note 4 Stock-Based Compensation in the Notes to the Condensed Consolidated Financial Statements).

Determining the appropriate fair value model and calculating the fair value of stock-based compensation awards requires the input of certain complex and subjective assumptions, including the expected life of the stock-based compensation awards and the Company's Common Stock price volatility. In addition, determining the appropriate amount of associated periodic expense requires management to estimate the rate of employee forfeitures and the likelihood of the achievement of certain performance targets. The assumptions used in calculating the fair value of stock-based compensation awards and the associated periodic expense represent management's best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change and the Company deems it necessary in the future to modify the assumptions it made or to use different assumptions, or if the quantity and nature of the Company's stock-based compensation awards changes, then the amount of periodic stock-based compensation expense may need to be adjusted which could be materially different from what has been recorded in the current period.

Restructuring and other accruals We may record accruals for severance costs, costs associated with excess facilities that we have leased, contract terminations, asset impairments, the integration of acquired businesses, and other costs as a result of on-going actions we undertake to streamline our organization, reposition certain businesses and reduce ongoing costs, or acquire other companies. Estimates of costs to be incurred to complete these actions, such as future lease payments, sublease income, the fair value of assets, and severance and related benefits, are based on assumptions at the

Edgar Filing: GARTNER INC - Form 10-Q

time the actions are initiated. These accruals may need to be adjusted to the extent actual costs differ from such estimates. In addition, these actions may be revised due to changes in business conditions that we did not foresee at the time such plans were approved. We also record accruals during the year for our various employee cash incentive programs. Amounts accrued at the end of each reporting period are based on our estimates and may require adjustment as the ultimate amount paid for these incentives are sometimes not known with certainty until the end of our fiscal year.

RESULTS OF OPERATIONS

Overall Results

The following tables summarize the changes in selected income and expense lines in our interim Condensed Consolidated Statements of Operations for the periods indicated (dollars in thousands):

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Income Increase (Decrease) \$	Income Increase (Decrease) %
Total revenues	\$ 397,482	\$ 365,543	\$ 31,939	9%
Costs and expenses:				
Cost of services and product development	161,247	152,461	(8,786)	(6)
Selling, general and administrative	165,221	152,758	(12,463)	(8)
Depreciation	6,182	6,234	52	1
Amortization of intangibles	928	2,522	1,594	63
Acquisition and integration charges	1,182		(1,182)	(100)
Operating income	62,722	51,568	11,154	22
Interest expense, net	(2,153)	(2,797)	644	23
Other expense, net	(76)	(571)	495	87
Provision for income taxes	(19,009)	(15,977)	(3,032)	(19)
Net income	\$ 41,484	\$ 32,223	\$ 9,261	29%

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Income Increase (Decrease) \$	Income Increase (Decrease) %
Total revenues	\$ 766,653	\$ 695,110	\$ 71,543	10%
Costs and expenses:				
Cost of services and product development	307,710	285,777	(21,933)	(8)
Selling, general and administrative	327,739	294,430	(33,309)	(11)
Depreciation	12,077	12,505	428	3
Amortization of intangibles	1,667	5,049	3,382	67
Acquisition and integration charges	1,182		(1,182)	(100)
Operating income	116,278	97,349	18,929	19
Interest expense, net	(4,348)	(5,581)	1,233	22
Other expense, net	(1,054)	(953)	(101)	(11)
Provision for income taxes	(35,171)	(29,401)	(5,770)	(20)
Net income	\$ 75,705	\$ 61,414	\$ 14,291	23%

Edgar Filing: GARTNER INC - Form 10-Q

TOTAL REVENUES for the three months ended June 30, 2012 increased \$31.9 million, or 9%, compared to the same quarter in 2011. Quarterly revenues increased by double-digits in our Research and Events segments but declined slightly in Consulting. Excluding the unfavorable impact of foreign currency translation, total quarterly revenues increased 12%. For the six month periods, revenues increased \$71.5 million in 2012, or 10%, with increases in all three of our business units. Excluding the unfavorable impact of foreign currency translation, revenues for the six months ended June 30, 2012 increased 12% over 2011. Please refer to the section of this MD&A below entitled **Segment Results** for a discussion of revenues and results by segment.

Edgar Filing: GARTNER INC - Form 10-Q

COST OF SERVICES AND PRODUCT DEVELOPMENT was \$8.8 million, or 6% higher in the second quarter of 2012 compared to the second quarter of 2011. The increase was primarily due to \$8.0 million in higher payroll and related benefits costs due to increased headcount and merit salary increases, and we also had additional conference expenses, primarily due to higher event attendance, as well as higher travel expenses due to additional associates. These increases were partially offset by the favorable impact of foreign currency translation. Cost of services and product development as a percentage of revenues decreased by 1 point, to 41% in the second quarter of 2012 from 42% in the second quarter of 2011, primarily driven by the higher revenues and operating leverage inherent in our Research segment.

For the six month periods, Cost of services and product development increased \$21.9 million in 2012, or 8%, compared to 2011. Consistent with the quarter, the increase was primarily due to higher payroll and related benefits costs due to increased headcount and merit salary increases, which increased by about \$18.0 million. We also had higher conference and travel costs, again due to higher attendance at our events and additional associates. These increases were partially offset by the favorable impact of foreign currency translation. Cost of services and product development as a percentage of revenues for the six months ended June 30, 2012 was 40%, a decline of 1 point compared to the six months ended June 30, 2011, again primarily driven by higher revenues and the operating leverage in the Research business.

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) was \$12.5 million, or 8%, higher quarter-over-quarter. The increase was primarily due to higher payroll and related benefits costs, which was partially offset by foreign currency translation. The higher payroll costs resulted from additional headcount, higher sales commissions, and merit salary increases. The increased headcount was primarily due to the investment in additional quota-bearing sales associates, which increased by 18%, to 1,356 at June 30, 2012 from 1,146 at June 30, 2011. SG&A expense increased 11%, or \$33.3 million, in the six months ended June 30, 2012 compared to the same period in the prior year. Consistent with the quarter-over-quarter increase, the additional expense was primarily driven by higher payroll costs.

DEPRECIATION expense declined slightly in both the three and six months ended June 30, 2012 compared to the same periods in the prior year. The decline was due to certain fixed assets becoming fully depreciated which was only partially offset by depreciation on asset additions.

AMORTIZATION OF INTANGIBLES decreased in both the three and six months ended June 30, 2012 compared to the same periods in the prior year due to certain intangibles becoming fully amortized. Additionally, amortization expense only reflected one month of amortization for intangible assets resulting from the acquisition of Ideas International.

ACQUISITION AND INTEGRATION CHARGES was \$1.2 million in the three and six months ended June 30, 2012 and zero for the same periods in 2011. These charges relate to the acquisition of Ideas International in the three months ended June 30, 2012 and include legal, consulting, severance, and other costs.

OPERATING INCOME increased \$11.2 million, or 22%, quarter-over-quarter, to \$62.7 million in the three months ended June 30, 2012 compared to \$51.6 million in 2011. Operating income as a percentage of revenues increased 2 points, to 16% in the second quarter of 2012 compared to 14% in the second quarter of 2011, primarily due to a significantly higher segment contribution from our Research segment, and to a lesser extent, a higher contribution from our Events segment in the 2012 quarter. For the six month periods, operating income increased 19% in 2012 compared to 2011. As a percentage of revenues, operating income increased 1 point in the first half of 2012, to 15% compared to 14% in the first half of 2011, again primarily due to higher Research and Events contributions. Please refer to the section of this MD&A entitled Segment Results below for a further discussion of revenues and results by segment.

INTEREST EXPENSE, NET decreased 23% quarter-over-quarter, primarily due to a lower average amount of debt outstanding. For the six month periods, Interest expense, net, decreased 22%, also due to a lower average amount of debt outstanding.

OTHER (EXPENSE) INCOME, NET consisted of net foreign currency exchange gains and losses.

PROVISION FOR INCOME TAXES was \$19.0 million for the three months ended June 30, 2012 compared to \$16.0 million in the prior year quarter. The effective tax rate was 31.4% for the three months ended June 30, 2012 and 33.1% for the same period in 2011. The decrease in the effective tax rate was primarily due to the impact of certain state tax credits recognized in the second quarter of 2012, offset in part by a change in the estimated annual mix of pre-tax income by jurisdiction.

The provision for income taxes was \$35.2 million for the six months ended June 30, 2012 compared to \$29.4 million for the same period in 2011. The effective tax rate was 31.7% for the six months ended June 30, 2012 and 32.4% for the same period in 2011. The decrease in the effective tax rate was primarily due to the impact of certain state tax credits recognized in the second quarter of 2012, offset in part by a change in the estimated annual mix of pre-tax income by jurisdiction.

NET INCOME was \$41.5 million and \$32.2 million for the three months ended June 30, 2012 and 2011, respectively, an increase of 29%. Both basic and diluted earnings per share increased by \$0.11 per share over the prior year quarter due to the higher net income

Edgar Filing: GARTNER INC - Form 10-Q

and to a lesser extent, a lower number of weighted-average shares outstanding. For the six month periods, net income increased 23%, while basic and diluted earnings per share increased by \$0.17 per share, again due to higher net income and to a lesser extent, lower weighted-average shares outstanding.

SEGMENT RESULTS

We evaluate reportable segment performance and allocate resources based on gross contribution margin. Gross contribution is defined as operating income excluding certain Cost of services and product development charges, SG&A expenses, Depreciation, Acquisition and integration charges, and Amortization of intangibles. Gross contribution margin is defined as gross contribution as a percentage of revenues.

The following sections present the results of our three segments:

Research

	As Of And For The Three Months Ended June 30, 2012	As Of And For The Three Months Ended June 30, 2011	Increase (Decrease)	Percentage Increase (Decrease)	As Of And For The Six Months Ended June 30, 2012	As Of And For The Six Months Ended June 30, 2011	Increase (Decrease)	Percentage Increase (Decrease)
Financial Measurements:								
Revenues (1)	\$ 278,302	\$ 250,015	\$ 28,287	11%	\$ 552,922	\$ 493,450	\$ 59,472	12%
Gross contribution (1)	\$ 189,471	\$ 168,304	\$ 21,167	13%	\$ 378,074	\$ 332,805	\$ 45,269	14%
Gross contribution margin	68%	67%	1 point		68%	67%	1 point	
Business Measurements:								
Contract value (1)	\$ 1,141,461	\$ 1,006,923	\$ 134,538	13%				
Client retention	83%	82%	1 point					
Wallet retention	99%	100%	(1) point					

(1) Dollars in thousands.

Research segment revenues increased 11% on a quarter-over-quarter basis but excluding the unfavorable effect of foreign currency translation, revenues increased 14%. The segment gross contribution margin increased by 1 point quarter-over-quarter due to the higher revenues and the operating leverage inherent in the Research business. When comparing the six month periods, revenues increased 12% in the 2012 period, but increased 14% adjusted for foreign currency impact. The segment gross contribution margin increased 1 point when comparing 2012 to 2011, again due to higher revenues and the operating leverage in this business.

Research contract value at June 30, 2012 increased 13% compared to June 30, 2011 and 14% excluding the foreign currency translation impact. Contract value increased across all of the Company's industry types and client sizes. Client retention increased by 1 point while wallet retention declined by 1 point.

Consulting

	As Of And For The Three Months	As Of And For The Three Months	Increase (Decrease)	Percentage Increase (Decrease)	As Of And For The Six	As Of And For The Six	Increase (Decrease)	Percentage Increase (Decrease)

Edgar Filing: GARTNER INC - Form 10-Q

	Ended June 30, 2012		Ended June 30, 2011		Months Ended June 30, 2012		Months Ended June 30, 2011				
Financial Measurements:											
Revenues (1)	\$	76,676	\$	77,962	\$	(1,286)	(2)%	\$ 151,239	\$ 148,592	\$ 2,647	2%
Gross contribution (1)	\$	27,906	\$	28,873	\$	(967)	(3)%	\$ 55,506	\$ 54,362	\$ 1,144	2%
Gross contribution margin		36%		37%		(1) point		37%		37%	
Business Measurements:											
Backlog (1)	\$	93,100	\$	94,845	\$	(1,745)	(2)%				
Billable headcount		481		490		(9)	(2)%				
Consultant utilization		67%		64%		3 points		68%		65%	3 points
Average annualized revenue per billable headcount	\$	425	\$	414	\$	11	3%	\$ 431	\$ 419	\$ 12	3%

(1) Dollars in thousands.

Consulting revenues decreased 2% quarter-over-quarter, due to lower revenues in our contract optimization business, which can fluctuate from quarter-to-quarter, and to a lesser extent, lower strategic advisory (SAS) revenues. These decreases were partially offset by higher core consulting revenues. Excluding the unfavorable impact of foreign currency translation, revenues increased 1% quarter-

Edgar Filing: GARTNER INC - Form 10-Q

over-quarter. The gross contribution margin declined by 1 point, primarily driven by the lower revenues in our contract optimization business, which has a higher contribution margin than core consulting or SAS.

For the six month periods, revenues increased 2% in 2012, due to higher core consulting revenues. The increase in revenues from our core consulting business was partially offset by lower contract optimization and SAS revenues. Consulting revenues increased 4% excluding the unfavorable impact of foreign currency translation. The gross contribution margin was 37% for both six month periods. Backlog at June 30, 2012 decreased 2% compared to June 30, 2011.

Events

	As Of And For The Three Months Ended June 30, 2012	As Of And For The Three Months Ended June 30, 2011	Increase (Decrease)	Percentage Increase (Decrease)	As Of And For The Six Months Ended June 30, 2012	As Of And For The Six Months Ended June 30, 2011	Increase (Decrease)	Percentage Increase (Decrease)
Financial Measurements:								
Revenues (1)	\$ 42,504	\$ 37,566	\$ 4,938	13%	\$ 62,492	\$ 53,068	\$ 9,424	18%
Gross contribution (1)	\$ 20,394	\$ 17,315	\$ 3,079	18%	\$ 28,289	\$ 22,980	\$ 5,309	23%
Gross contribution margin	48%	46%	2 points		45%	43%	2 points	
Business Measurements:								
Number of events	21	21			34	32	2 events	6%
Number of attendees	12,540	11,295	1,245	11%	18,247	15,632	2,615	17%

(1) Dollars in thousands.

Events revenues increased 13% quarter-over-quarter, or \$4.9 million. Excluding the unfavorable impact of foreign currency translation, events revenues increased 16%. The 21 events held in the second quarter of 2012 consisted of 18 ongoing events, 2 new event launches and 1 event moved in to the quarter. Approximately \$4.4 million of the revenue increase was due to our ongoing events. The number of overall attendees and exhibitors increased 11% and 10%, respectively, while average revenue per attendee and exhibitor increased 5% and 1%, respectively. The gross contribution margin increased 2 points, primarily due to a higher contribution from our ongoing events.

For the six month periods, Events revenues increased \$9.4 million when comparing 2012 to 2011, or 18%, primarily due to higher revenues from our ongoing events. Adjusted for the unfavorable impact of foreign currency translation, revenues increased 21%. The 34 events held through June 30, 2012 consisted of 31 ongoing events and 3 new events. Overall, we had a 17% increase in the number of both attendees and exhibitors, while average revenue increased 1% for attendees but declined 1% for exhibitors. The gross contribution margin increased 2 points, primarily due to higher contribution from our ongoing events.

LIQUIDITY AND CAPITAL RESOURCES

The Company has a five-year credit agreement that provides for a \$200.0 million term loan and a \$400.0 million revolving credit facility (the 2010 Credit Agreement). Under the revolving credit facility, amounts may be borrowed, repaid, and re-borrowed through the maturity date of the agreement in December 2015. The credit arrangement contains an expansion feature by which the term loan and revolving credit facility may be increased, at the Company's option and under certain conditions, up to an additional \$150.0 million in the aggregate.

We finance our operations primarily through cash generated from our on-going operating activities. At June 30, 2012, we had \$150.5 million of cash and cash equivalents and \$361.8 million of available borrowing capacity under our revolving credit facility. Our cash and cash equivalents are held in numerous locations throughout the world, with approximately 90% held outside the United States at June 30, 2012. We believe that we have adequate liquidity and that the cash we expect to earn from our on-going operating activities, our existing cash balances, and the

borrowing capacity we have under our revolving credit facility will be sufficient for our currently anticipated needs.

Edgar Filing: GARTNER INC - Form 10-Q

The following table summarizes the changes in the Company's cash and cash equivalents (in thousands):

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Cash Increase (Decrease)
Cash provided by operating activities	\$ 99,452	\$ 63,913	\$ 35,539
Cash used in investing activities	(30,151)	(9,460)	(20,691)
Cash used by financing activities	(59,108)	(49,728)	(9,380)
Net increase in cash and cash equivalents	10,193	4,725	5,468
Effects of exchange rates	(2,401)	435	(2,836)
Beginning cash and cash equivalents	142,739	120,181	22,558
Ending cash and cash equivalents	\$ 150,531	\$ 125,341	\$ 25,190

Operating

Operating cash flow increased by \$35.5 million when comparing the six months ended June 30, 2012 to the same period in 2011. The increase was primarily due to \$14.3 million in higher net income and significantly higher collections on receivables and other positive working capital changes. We also had lower cash payments for interest on our debt. These increases were partially offset by higher cash payments for income taxes in 2012.

Investing

We used an additional \$20.7 million of cash in our investment activities in the 2012 period. The increase was primarily due to \$7.1 million of additional capital expenditures related to the on-going renovation of our Stamford headquarters facility, which is fully reimbursable by the facility landlord, and \$9.5 million of cash used for our acquisition of Ideas International.

Financing

We used an additional \$9.4 million of cash in our financing activities in the 2012 period due to a lower amount of cash realized from stock option exercises and excess tax benefits, which declined by \$12.8 million. The decline in cash from stock option exercises reflects lower exercises in the 2012 period. Partially offsetting the decline in cash realized from option exercises and excess tax benefits was a lower amount of cash used for share repurchases.

OBLIGATIONS AND COMMITMENTS

2010 Credit Agreement

The 2010 Credit Agreement provides for a five-year, \$200.0 million term loan and a \$400.0 million revolving credit facility, and an expansion feature by which the term loan and revolving credit facility may be increased, at the Company's option and under certain conditions, by up to an additional \$150.0 million in the aggregate. To date, the Company has not borrowed under the expansion feature. The Company had \$200.0 million outstanding under its 2010 Credit Agreement as of June 30, 2012.

The term loan will be repaid in 19 consecutive quarterly installments which commenced on March 31, 2011, plus a final payment due on December 22, 2015, and may be prepaid at any time without penalty or premium at the Company's option. The revolving credit facility may be used for loans, and up to \$40.0 million may be used for letters of credit. The revolving loans may be borrowed, repaid and re-borrowed until December 22, 2015, at which time all amounts borrowed must be repaid. See Note 7 Debt herein in the Notes to the Condensed Consolidated Financial Statements for additional information regarding the 2010 Credit Agreement.

Off-Balance Sheet Arrangements

Through June 30, 2012, we have not entered into any off-balance sheet arrangements or transactions with unconsolidated entities or other persons.

BUSINESS AND TRENDS

Our quarterly and annual revenues, operating income, and cash flows fluctuate as a result of many factors, including: the timing of our Symposium/ITxpo series that normally occurs during the fourth calendar quarter, as well as our other events; the amount of new business generated; the mix of domestic and international business; changes in market demand for our products and services; changes in foreign currency rates; the timing of the development, introduction and marketing of new products and services; competition in the industry; and other factors. The potential fluctuations in our operating income could cause period-to-period comparisons of operating results not to be meaningful and could provide an unreliable indication of future operating results.

FACTORS THAT MAY AFFECT FUTURE PERFORMANCE

We operate in a very competitive and rapidly changing environment that involves numerous risks and uncertainties, some of which are beyond our control. A description of the risk factors associated with our business is included under **Risk Factors** contained in Item 1A. of our 2011 Annual Report on Form 10-K which is incorporated herein by reference.

RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting rules issued by the various U.S. standard setting and governmental authorities that have not yet become effective and may impact our Consolidated Financial Statements in future periods are described below, together with our assessment of the potential impact they may have on our Consolidated Financial Statements and related disclosures in future periods:

Edgar Filing: GARTNER INC - Form 10-Q

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*. The new guidance requires disclosures about assets and liabilities that are offset or have the potential to be offset. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. In addition, the standard requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. These disclosures are intended to address differences in the asset and liability offsetting requirements under U.S. GAAP and International Financial Reporting Standards. This new guidance will be effective for Gartner for interim and annual reporting periods beginning January 1, 2013, with retrospective application required. While the adoption of this new guidance may result in additional disclosures, we do not expect it to have a material impact on the Company's results of operations, cash flows, or financial position.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

We have exposure to changes in interest rates arising from borrowings under our 2010 Credit Agreement. At June 30, 2012, we had \$165.0 million outstanding under the term loan and \$35.0 million outstanding under the revolver. Borrowings under this facility are floating rate, which may be either prime-based or Eurodollar-based. The rate paid for these borrowings includes a base floating rate plus a margin between 0.50% and 1.25% on prime borrowings and between 1.50% and 2.25% on Eurodollar-based borrowings.

We have an interest rate swap contract which effectively converts the floating base rate on the first \$200.0 million of our borrowings to a 2.26% fixed rate. The Company only hedges the base interest rate risk on the first \$200.0 million of its outstanding borrowings. Accordingly, we are exposed to interest rate risk on borrowings in excess of \$200.0 million. A 25 basis point increase or decrease in interest rates would change pre-tax annual interest expense on the additional revolver borrowing capacity under the 2010 Credit Agreement (not including the expansion feature) by approximately \$0.9 million.

FOREIGN CURRENCY RISK

We have customers in numerous countries, and 46% and 44% of our revenues for the fiscal years ended December 31, 2011 and 2010, respectively, were derived from sales outside of the U.S. As a result, we conduct business in numerous currencies other than the U.S. dollar. Among the major foreign currencies in which we conduct business are the Euro, the British Pound, the Japanese Yen, the Australian dollar, and the Canadian dollar. Our foreign currency exposure results in both translation risk and transaction risk:

Translation Risk

We are exposed to foreign currency translation risk since the functional currencies of our foreign operations are generally denominated in the local currency. Translation risk arises since the assets and liabilities that we report for our foreign subsidiaries are translated into U.S. dollars at the exchange rates in effect at the balance sheet dates, and these exchange rates fluctuate over time. These foreign currency translation adjustments are deferred and are recorded as a component of stockholders' equity and do not impact our operating results.

A measure of the potential impact of foreign currency translation on our Condensed Consolidated Balance Sheets can be determined through a sensitivity analysis of our cash and cash equivalents. At June 30, 2012, we had \$150.5 million of cash and cash equivalents, a substantial portion of which was denominated in foreign currencies. If the foreign exchange rates of the major currencies in which we operate changed in comparison to the U.S. dollar by 10%, the amount of cash and cash equivalents we would have reported on June 30, 2012, would have increased or decreased by approximately \$9.1 million.

Because our foreign subsidiaries generally operate in a local functional currency that differs from the U.S. dollar, revenues and expenses in these foreign currencies translate into higher or lower revenues and expenses in U.S. dollars as the U.S. dollar continuously weakens or strengthens against these other currencies. Therefore, changes in exchange rates may affect our consolidated revenues and expenses (as expressed in U.S. dollars) from foreign operations. Historically, this impact on our consolidated earnings has not been material since foreign currency movements in the major currencies in which we operate tend to impact our revenues and expenses fairly equally.

Transaction Risk

We have foreign exchange transaction risk since we typically enter into transactions in the normal course of business that are denominated in foreign currencies that differ from the local functional currency in which the foreign subsidiary operates.

We typically enter into foreign currency forward exchange contracts to offset the effects of foreign currency transaction risk. These contracts are normally short term in duration and unrealized and realized gains and losses are recognized in current period earnings. At June 30, 2012, we had 35 outstanding foreign currency forward contracts with a total notional amount of \$31.9 million and an immaterial net unrealized loss. Substantially all of these contracts matured by the end of July 2012.

CREDIT RISK

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of short-term, highly liquid investments classified as cash equivalents, accounts receivable, and interest rate swap contracts. The majority of the Company's cash and cash equivalents and its interest rate swap contracts are with large investment grade commercial banks that are participants in the Company's 2010 Credit Agreement. Accounts receivable balances deemed to be collectible from customers have limited concentration of credit risk due to our diverse customer base and geographic dispersion.

ITEM 4. CONTROLS AND PROCEDURES

We have established disclosure controls and procedures that are designed to ensure that the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported in a timely manner. Specifically, these controls and procedures ensure that the information is accumulated and communicated to our executive management team, including our chief executive officer and our chief financial officer, to allow timely decisions regarding required disclosure.

Management conducted an evaluation, as of June 30, 2012, of the effectiveness of the design and operation of our disclosure controls and procedures, under the supervision and with the participation of our chief executive officer and chief financial officer. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that the Company s disclosure controls and procedures are effective in alerting them in a timely manner to material Company information required to be disclosed by us in reports filed under the Exchange Act.

In addition, there have been no changes in the Company s internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

We are involved in legal and administrative proceedings and litigation arising in the ordinary course of business. We believe that the potential liability, if any, in excess of amounts already accrued from all proceedings, claims and litigation will not have a material effect on our financial position or results of operations when resolved in a future period.

The IRS has completed its examination of the federal income tax return of the Company for the tax year ended December 31, 2007. In December 2010, the Company received a report of the audit findings. The Company disagrees with certain of the proposed adjustments and is disputing this matter through applicable IRS and judicial procedures, as appropriate. Separately, in the second quarter of 2011 the IRS commenced an audit of the Company's 2008 and 2009 tax years. The Company continues to comply with all information requests and no material adjustments of the Company's tax positions have been proposed at this time for the 2008 and 2009 tax years. Although the final resolution of these audits is uncertain and there are no assurances that the ultimate resolution will not exceed the amounts recorded, the Company believes that the ultimate disposition of these matters will not have a material adverse effect on its consolidated financial position, cash flows, or results of operations.

ITEM 1A. RISK FACTORS

A description of the risk factors associated with our business is included under "Risk Factors" contained in Item 1A. of our 2010 Annual Report on Form 10-K and is incorporated herein by reference.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no unregistered sales of equity securities during the period covered by this report.

Issuer Purchases of Equity Securities

The Company has a \$500.0 million share repurchase program to be utilized to acquire shares of Common Stock. Repurchases may be made from time-to-time through open market purchases, private transactions, tender offers or other transactions. The amount and timing of repurchases will be subject to the availability of stock, prevailing market conditions, the trading price of the stock, the Company's financial performance and other conditions. Repurchases may also be made from time-to-time in connection with the settlement of the Company's shared-based compensation awards. Repurchases will be funded from cash flow from operations and borrowings under the Company's Credit Agreement. The following table provides detail related to repurchases of our Common Stock for treasury in the six months ended June 30, 2012:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Approximate Dollar Value of Shares that may yet be Purchased Under our Share Repurchase Program (in thousands)
2012 (1)			
January	86,123	\$ 34.89	
February	1,287,473	38.70	
March	605,833	40.16	
Total	1,979,429	\$ 38.98	
April	1,113	\$ 42.94	
May	38,824	42.97	
June	144,894	40.04	
Total	184,831	\$ 40.67	\$ 231.0

-
- (1) The Company paid a total of \$7.5 million in cash for share repurchases in the three months ended June 30, 2012 and \$84.7 million in the six months ended June 30, 2012.

ITEM 6. EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
31.1	Certification of chief executive officer under Rule 13a-14(a)/15d-14(a).
31.2	Certification of chief financial officer under Rule 13a-14(a)/15d-14(a).
32	Certification under 18 U.S.C. 1350.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets at June 30, 2012 and December 31, 2011, (ii) the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2012 and 2011, (iv) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011, and (v) the Notes to Condensed Consolidated Financial Statements.

Items 3, 4, and 5 of Part II are not applicable and have been omitted.

Edgar Filing: GARTNER INC - Form 10-Q

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 3, 2012

Gartner, Inc.

/s/ Christopher J. Lafond

Christopher J. Lafond
Executive Vice President and Chief Financial
Officer
(Principal Financial and Accounting Officer)

33
